



# TREASURER-TAX COLLECTOR

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## COUNTY OF SAN DIEGO DEFERRED COMPENSATION PROGRAM

### **LOAN AND HARDSHIP WITHDRAWAL INFORMATION OCTOBER 29, 2003**

Under the County's Deferred Compensation Program, plan participants may obtain loans from their 401(a) plans, and hardship withdrawals from their 457 plans. Below are some frequently asked questions and answers to assist you in determining whether to obtain a loan or hardship withdrawal. In addition, we recommend that you consider consulting with a financial planner or tax advisor to assist you with your specific circumstances.

#### **LOANS**

Question 1: Can I get a loan from my deferred compensation plan?

Answer: Yes. You may apply for and obtain a loan from your 401(a) plan. However, you **cannot** apply for or obtain a loan from your 457 plan.

Question 2: How much can I borrow from my 401(a) plan?

Answer: You must borrow a minimum of \$1,000, and you may borrow up to \$50,000 or 50% of your account balance, whichever is less.

Question 3: Can I have more than one loan?

Answer: No. You can have only one outstanding loan at a time, even if you have accounts with both The Hartford and T. Rowe Price.

Question 4: What do I need to do to apply for a loan under my 401(a) plan?

Answer: If your 401(a) plan is with The Hartford, you must complete the following documents and submit them directly to The Hartford (**Fax 860-843-3280**):

1. Loan Application & Agreement (Form HVL-412-1 7/03)
2. Spousal Consent for Loan Security (Form SD loan spousal consent 7/03)

If your 401(a) plan is with T. Rowe Price, you must contact them directly at 1-800-922-9945 to obtain a customized loan application. They will fax the loan paperwork directly to you and will accept the paperwork back via fax at (410) 345-6318 or (410) 345-6317.

You may obtain forms and/or information by calling:

The Hartford at 1-800-528-9009

T. Rowe Price at 1-800-922-9945

The Treasurer-Tax Collector's Office at (619) 531-5398

Question 5: Is there a fee for the loan?

Answer: Yes. Both The Hartford and T. Rowe Price charge a loan processing fee of \$50 which is deducted from the loan amount. There may also be additional fees for wire transfers and overnight delivery.

However, for those participants who require the funds due to loss of property from the October 2003 wildfires, Hartford has agreed to waive their loan processing fee (\$50), wire transfer fee (\$15) and overnight delivery fee (\$7). Participants should state on the loan

application that "the loan is required by the participant because of loss and/or damage to the participant's residence and/or other structures or personal property caused by the October 2003 brushfires in San Diego County."

T. Rowe Price has also agreed to waive their loan processing fee (\$50) and overnight delivery fee (\$7) for all loan applications submitted between November 1-30, 2003. T. Rowe Price charges no fees for wire transfer.

Question 6: How soon will I receive the loan proceeds?

Answer: The Hartford generally processes loan requests within 24 hours and a check is mailed directly to the participant via first class mail. The Hartford will waive the usual wire transfer fee for loan requests related to the October 2003 firestorms in San Diego. The participant may request overnight delivery for an additional \$7.00 charge which is deducted from the loan amount.

T. Rowe Price begins processing loan requests upon receipt of the paperwork and a check is generally mailed directly to the participant the next day. In addition, overnight delivery or wire transfers are available and may require additional charges.

Question 7: How do I pay back the loan?

Answer: Principal and interest payments on the loan will be deducted from your paycheck each pay period. Payments are divided equally between principal and interest for the life of the loan, and the loan must be completely repaid within 5 years (unless it is used to buy your primary residence). The amount you borrow does not constitute a taxable distribution unless the loan is not repaid as required.

Question 8: How much interest will I pay on the loan?

Answer: The interest rate is a fixed rate equal to the prime rate published in The Wall Street Journal plus 2%. The interest rate is determined as of the date the loan is approved. The current interest rate as of October 28, 2003 is 6%.

Question 9: What happens if I go on a leave of absence during the loan term?

Answer: If you go on an approved leave of absence without pay or at a rate of pay that is less than the installment payment amount, you may make a written request to suspend the loan repayment. The loan repayment may be suspended for one year, until the end of your leave or until the end of the loan term, whichever is earliest. The suspension will not extend the term of the loan, and interest will continue to accrue during the suspension period. Contact the Treasurer-Tax Collector's Office at (619) 531-5398 for more information.

Question 10: What happens if the loan goes into default?

Answer: Failure to make payments when due for 30 days will result in the loan going into default. Once in default, loan payments will be suspended for up to 60 days or until 30 days before the end of the loan term, whichever occurs first. Failure to resume payments and repay outstanding payments by the end of the suspension period will result in the outstanding principal and interest being treated as a taxable distribution.

Question 11: What if I terminate employment with the County during the loan term?

Answer: If you terminate employment during the loan term, the unpaid balance will be due and payable immediately.

### **HARDSHIP WITHDRAWALS**

Question 1: Can I take a hardship withdrawal from my deferred compensation plan?

Answer: Yes. You may apply for and obtain a hardship withdrawal from your 457 plan for an "unforeseeable emergency." However, you **cannot** apply for or obtain a hardship withdrawal from your 401(a) plan.

Question 2: What qualifies as an "unforeseeable emergency?"

Answer: The Internal Revenue Service defines an unforeseeable emergency as a severe financial hardship to the participant resulting from a sudden and unexpected illness or accident of the participant or of a dependent of the participant, loss of the participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the participant.

Question 3: How much can I withdraw from my 457 plan for a hardship?

Answer: The amount distributed will be the amount reasonably necessary to satisfy the emergency or the amount of the account balance, whichever is less.

Question 4: Can I suspend my salary deferrals under the 457?

Answer: Yes. You may request that your salary deferrals be suspended pending the hardship distribution. Upon payment of the hardship distribution, your salary deferrals must be suspended for a minimum of six (6) months from the date of payment.

Question 5: What do I need to do to apply for a hardship withdrawal under my 457 plan?

Answer: If your 457 plan is with The Hartford, you must complete their Unforeseeable Emergency Withdrawal Request (Form HVL-335-3 7/02) and submit it directly to The Hartford (**Fax 860-843-3280**),

If your 457 plan is with T. Rowe Price, you must complete their Unforeseeable Emergency Withdrawal Request (Form 250931SD2H 09/22/03) and submit it directly to T. Rowe Price (**Fax 410-345-6318 or 410-345-6317**).

You may obtain forms and/or information by calling:

The Hartford at 1-800-528-9009

T. Rowe Price at 1-800-922-9945

The Treasurer-Tax Collector's Office at (619) 531-5398

Question 6: Is there a fee for a hardship withdrawal?

Answer: No. However, there are tax consequences as explained below.

Question 7: What are the tax consequences if I take a hardship withdrawal from my 457 plan?

Answer: You are liable for payment of income taxes on your withdrawal. You may also be subject to tax penalties under the estimated tax payment penalties rules if your payment of estimated tax and withholding are not adequate. Federal income tax withholding will be applied at a rate of 10% unless you elect not to have the money withheld. You should consult your tax advisor if you have any questions.

Question 8: How soon will I receive the proceeds from the hardship distribution?

Answer: Hardship requests generally require at least one (1) week for processing by the plan provider since each request is considered on a case-by-case basis according to strict IRS guidelines. You should contact the plan provider directly to check on the status of your request.

The Hartford (1-800-528-9009)

T. Rowe Price (1-800-922-9945)

**PLEASE CONTACT THE TREASURER-TAX COLLECTOR'S OFFICE AT (619) 531-5398 IF YOU HAVE ADDITIONAL QUESTIONS OR NEED ASSISTANCE.**